



Overreaction to CPI and ECB

This past week was inflation-focused. The Producer Price index (PPI) and Consumer Price Index (CPI) reported higher-than-expected inflation rates. PPI hit a new 40-year high. CPI increased, showing the rate hikes have not had the desired impact, and more hikes can be expected. After CPI data on Thursday, equities dropped more than 2.5% in response, as expected.

Shortly after the market opened, the European Central Bank (ECB) commented that they would focus on coordinated monetary policy. The thought that the ECB could raise interest rates like the Federal Reserve caused the U.S. dollar to tumble and equities to skyrocket. Equities recovered all of the selloffs and rallied more than 5% by Thursday's end of the day.

Friday pulled back from the highs, but it appears to have been a technical pullback and not in response to Friday's retail sales report.

THE WEEK AHEAD:

Next week will see multiple earnings reports, which could be a catalyst for big moves in equities. Economic reports next week will be focused on manufacturing data. We expect to see a continued contraction in manufacturing.

Monday 10/17: Empire State Manufacturing Index

Companies Reporting Before: BAC, SCHW, BK

Companies Reporting After: none

Tuesday 10/18: none

Companies Reporting Before: JNJ, GS, ISRG, TFC, STT, HAS, OMC

Companies Reporting After: NFLX, JBHT, UAL

Wednesday 10/19: Federal Open Market Committee (FOMC) Member Bullard Speaks

Companies Reporting Before: PG, ABT, ASML, ELV, PLD, TRV, MTB, NDAQ, NTRS, KMI, LVS, CFG, GL, CMA, MKTX

Companies Reporting After: TSLA, IBM, CCI, LRCX, PPG, EFX, LSTR

Thursday 10/20: Philly Fed Manufacturing Index, Weekly Unemployment Claims, Existing Home Sales

Companies Reporting Before: DHR, PM, UNP, T, MMC, FCX, DOW, FITB, TSCO, DOV, KEY, DGX, POOL, SNA, AAL, TEAM, NUE, GPC, NVR, CE, SBNY, ALK

Companies Reporting After: CSX, SIVB, WHR

Friday 10/21: none

Companies Reporting Before: VZ, AXP, SLB, HCA, HBAN, RF, IPG, STX

Companies Reporting After: none

Forecast:

The expectation of a 75-basis point hike during the November Fed meeting is nearly a lock at 90%. The market is now pricing in additional 50-basis points in December. Rising rates will likely see equities reach a new annual low.

Treasury yields are on the rise despite the bounce in equities. Yields are likely to reach new multi-decade highs.

Profit Harvester Trade Rules:

- 1- Watchlist High Liquidity: 500k shares a day and penny increment options
- 2- Signal: Big move on Friday: 2.5% or more up (or down)
- 3- Signal Confirmation: Single Deviation breakout based on 20 days (using a 20-day Bollinger with a single deviation as confirmation to the 2.5% breakout move).

4- Entry Price: Confirmed intraday distribution entry at OB or OS pullback - This is a Time Price Opportunity chart (monkeybar) distribution projection. It generally means it needs to pull back to within 20% of the mid-price of Friday's large candle.

5- Target is a "fair price" or projected 50% level on the new distribution for the next day. (I hand calculated this on Friday after close)

For the Profit Harvester Trade recommendations below, be sure to follow the entry and exit rules especially the entry prices.

Profit Harvester Trade Recommendations:

(The following is intended for educational purposes only. Investors should research for due diligence and understand their own risk tolerance. Investors must recognize that investing holds no guarantees—you could lose money.)

The previous week's Profit Harvester, BMY, and BAC triggered their trade and reached the target by Tuesday. For next week, there are no bullish trades again. We are looking at DIS and DHI for bearish trades. For all of the Profit Harvester examples, the trade is canceled if the trade does not trigger within the first two trading days of next week.

Walt Disney Company (DIS)

Step 1, the Setup:

Sell DIS short or buy a put option with a 70 delta for 7-14 days, when price is anywhere between \$95.40 and \$96.20

Step 2, the stop loss:

Set a stop loss price \$2.30 above the entry price

Step 3, the profit target:

Consider taking profit if DIS falls \$1.15 per share lower.

Probabilities: For initial target from the entry provides a 67% probability of a win.



If you cannot see the chart clearly click the link below:

[Walt Disney Company \(DIS\).png](#)

DR Horton Inc (DHI)

Step 1, the Setup:

Sell DHI short or buy a put option with a 70 delta for 7-14 days, when price is anywhere between \$69.25 and \$70.00

Step 2, the stop loss:

Set a stop loss price \$1.80 above the entry price

Step 3, the profit target:

Consider taking profit if DHI falls \$1.20 per share lower.

Probabilities: For initial target from the entry provides a 60% probability of a win.



If you cannot see the chart clearly click the link below:

[DR Horton Inc \(DHI\).png](#)

Worthwhile Reading from the Past Week:

<https://www.reuters.com/markets/us/exclusive-bullard-september-inflation-warrants-frontloading-may-not-need-higher-2022-10-14/> (Bearish)

<https://www.reuters.com/markets/us/us-treasury-asks-major-banks-if-it-should-buy-back-us-government-bonds-2022-10-14/> (Bearish to Neutral)

<https://www.investing.com/news/stock-market-news/stock-market-today-dow-closes-lower-as-rising-treasury-yields-dent-tech-2912845> (Bearish)

-Blake Young